IMPORTANT: Please read "Gold and the Dollar" (page 6) first. This section explains a lot.

RICHARD RUSSELL'S **DOW THEORY LETTERS** INCORPORATED

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May 11, 1994 **LETTER 1147**

Apr. 29 DJIA 3681.69; PTI 4022; A-D Ratio -5.43
May 6 DJIA 3669.50; PTI 3998; A-D Ratio -5.90
Dow Yield: 2.77%; Dow Price/Earnings: 24.7
Dow 200-day MA: 3709; Dow 30-day MA: 3688
Dow Times Book Value: 3.20; PTI 89-day MA: 4044
Percentage of Undervalued Blue-chips: 11%
Dow Low Risk Buy Index: +125; Gold-PTI: 953
Gold 40-week MA: 376

DOLLAR: Ah, the bear is unconscionable. He's been attacking the area that the average American is least aware of and knows least about -- the international value of the dollar. Since the first of the year the dollar has declined 6% against the D-mark and 9% against the yen. With the US economy expanding and with Europe and Japan still in recession, and with US interest rates rising while Europe's and Japan's rates are declining, the dollar "should be strong." As one observer remarked, "For the dollar, the news doesn't get any better than this."

But still the buck has remained weak, and at the end of April and again on May 4 the Fed (plus 15 central banks) had to come in and support the dollar (even to the point of announcing to the world that the dollar was being supported). But behind the scenes it was seen that the US trade balance had deteriorated in 23 of the last 24 months, while both Germany's and Japan's trade surpluses have actually been increasing. So the "wise heads" in Washington thought they could stimulate US exports with a cheap dollar. But then the dollar decline turned into a route, and the world's central banks panicked. Thus, the intervention. Overall, the consensus among FOREX (foreign exchange) traders is that, basically, the US doesn't really give a damn about the dollar.

But holders of US securities overseas most definitely do care about the dollar. The danger is that if the dollar continues to decline, there could be a general exodus (by overseas investors) out of anything denominated in greenbacks. And even Washington wouldn't want that (no, they want the world to accept dollars, no matter what).

As I've written many times before, if you want to gauge the health and strength of a nation, track the long-term international value of its currency.

THE PICTURE: Here's what I believe -- I believe we are in the very early stages of the stock market's reversing its major trend -- from bull to bear. As the bull slowly weakens, the bear will gradually gain strength. But don't expect this whole process to occur overnight; it could (and may very well) be a prolonged and deceptive affair.

Remember -- this was a bull market that started back in 1974. It's a bull market that's finally dying after being in force for 20 years. So don't expect the old bull to just flop over on his back with all four feet pointing skyward. No, he's going to fight like the devil for his life. Furthermore, he's got the Fed and the administration and millions of stockholders and bondholders and all of Wall Street's money managers rooting for him.

The rooting, the cheers, the hopes, the optimism -- in the end they will all be in vain. It is said that no man can fully envision his own death. By the same token, the average stockholder undoubtedly has great difficulty envisioning the death of the bull. After all, the typical stock or fund holder has been in the market for maybe two to four years, and he has no idea of what a primary bear market can do -- or for that matter what a primary bear market even looks like.

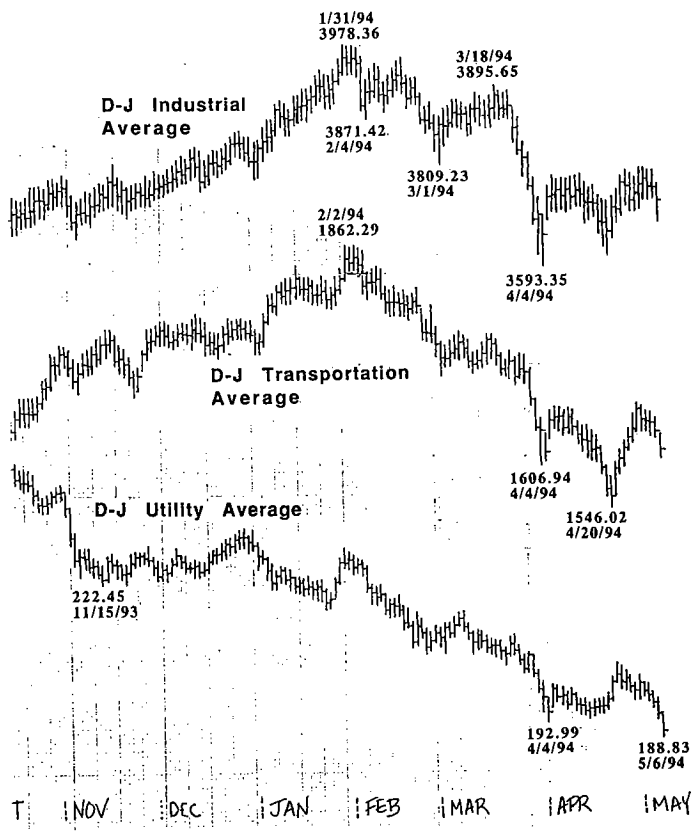
Frankly, I'd venture to say the same goes for the majority of fund managers. Most have experienced nothing but higher prices for the majority of stocks ever since 1982, and these "professionals" probably have a great deal of difficulty envisioning a bear market that could conceivably wipe out 50% to 75% of the value of their holdings.

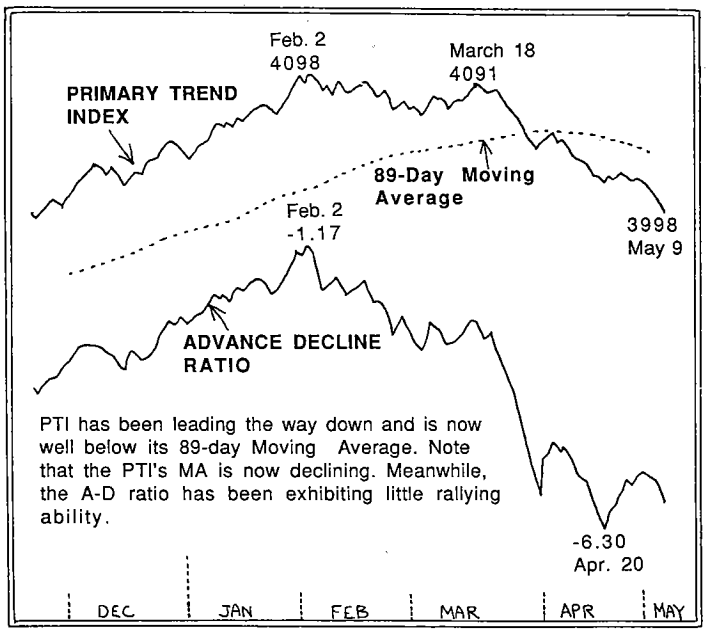
Nevertheless, major losses are exactly what I believe the bear has in mind. How will the bear do it? How long will it take to do it? I wish I could give you the exact details. But I do believe we are going to see a FULL bear market correction of the great bull market of 1974-94.

So far, I have not described the three psychological phases of a primary bear market. When I say psychological, I mean psychological as opposed to price movements (i.e., there can be many rallies and declines within a given psychological phase).

The first psychological phase of a bear market is the one where the market wipes out the froth and speculative foam of the preceding bull market top. This phase can be abbreviated or prolonged, but it is usually accompanied by surprise, puzzlement and consternation on the part of the public. The puzzlement arises because business generally remains quite strong during the first phase, and a market declining in the face of good business is obviously confusing to the public.

The second psychological phase is almost always the longest phase, and it is here that the market goes down in response to





obviously deteriorating conditions -- political, social and economic. The secondary stocks and "cats-and-dogs" will suffer severe collapses in the second phase. During the second phase it becomes increasingly clear that the bears are correct -- which is another way of saying that contrary (bullish) opinion will not work during the second phase.

Also, many of the widely-used bull market technical indicators will be giving off deceptive signals here. This is because the bear side will be the correct side in a bear market, so that many of the widely-followed bull market techniques will have to be read in reverse. During the second phase individual stocks will suddenly collapse as earning forecasts expectations turn out to be wildly over-optimistic.

The third and final phase of a bear market is the desperation phase, the "give-up" phase. Here good stocks are thrown in with the bad, and discouraging news paints the tape. In the third phase investors' sentiment finally turns black, and you will hear well-known analysts warn of "the end of Wall Street as we know it" or the "death of the capitalist system" or "the Dow will be cut in half over the next few months." In other words, "blood will be running in the streets." This, by the way, is the area where informed, veteran investors will begin to accumulate top-grade stocks. And, of course, the stocks they are buying will be on the bargain table, selling well below known value.

PRICE ACTION: OK, enough talk about what bear markets look like and what we might expect of this one. Let's just take a cold, unemotional look at what this market is actually doing.

First, we know that the Averages recorded bull market highs on January 31 (although the Utility Average recorded its own bull market high many months earlier in September).

From their January highs, the Industrials headed down, hitting a low of 3593.35 on April 4. Transports hit their low a few weeks later (on April 20) at 1546.02. Note the April 20 Transport low has not, so far, been confirmed by the Industrials. Thus, for a continuation of the bear market I would want Industrials to break below **3593.35,** with Transports confirming by violating their low of **1546.02.**

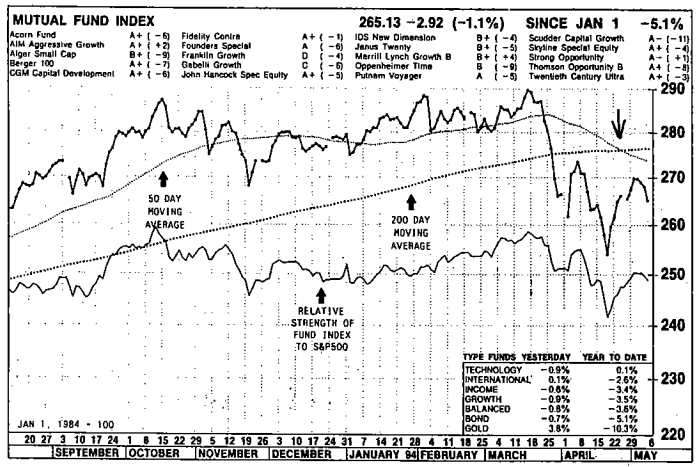
Many so-called experts are now recommending the utilities, adding that the high-yielding utility stocks are excellent values, and that they represent a good place to place money during a storm.

It doesn't necessarily work that way. For instance, consider the following: in 1971 the D-J Utility Average recorded its bull market high at 128.39. By the time the bear market ended in late-1974 the Utility Average had sunk to a low of 57.93. This represented a loss of 54.8% or well over half the peak value of the Utility Average. I remember how shocked investors were by this dismal performance.

The high for the Utility Average in this bull market was recorded last September at 256.46. So far, the Utility Average has lost about 26% of its value. My opinion -- the utilities will not be an island of safety in this bear market.

I don't know how many of my subscribers follow the moving averages of the Dow. These are posted at the upper right hand area of the first page in each Letter. But it is important to note that on April 29 the 30-day moving average of the Dow dropped below the 200-day MA. This constitutes an important bearish signal. A crossing of the two moving averages implies that the Dow, on any rally, will have a good deal of difficulty moving above the level of its 200-day MA.

Another "signal" worth paying attention to is the *Investor's Business Daily* Mutual Fund Index shown here (below). This is an index of 20 leading growth mutual funds. On April 28 the 50-day MA crossed below the 200 day MA, thus throwing off a bearish signal for mutual funds. If the 50-day MA remains below the 200-day MA, the 200-day will turn down thereby rendering a second bearish signal.



I watch this Mutual Fund Index with interest because it involves the fortunes of so much of the public's money. Note also that the relative strength line has recently broken to its lowest level on the chart. The clear implication here is that the big growth funds are performing worse than the "market," another negative for mutual fund investors.

By the way, the mutual fund industry is about to pass $2 trillion in total assets. This will surpass the value of the insurance industry, making mutual funds the largest concentration of private money in the nation.

Question: What does it mean when a stock or an average breaks below its 200-day moving average, and what is the meaning of the 200-day MA trending down?

Answer: The 200-day (or about 40-weeks) moving average is a much-used tool based on a time-span that has "worked" over the years. For instance, with the Mutual Fund Index now below its 200-day MA it means that the funds are now below their average price of 40 weeks ago, and therefore in a longer-term downtrend. Furthermore, once the 200-day MA itself turns down, it simply implies that the declining trend is becoming more pronounced and more persistent.

Technicians are suspicious of an index that rallies above a moving average that is declining, whereas they are much more impressed

by an index that rallies above a flat or rising MA. An index rallying above a declining MA is more indicative of a rally in an ongoing bear market. In other words, once those 200-day moving averages turn down -- watch out.

PRIMARY TREND INDEX (PTI): Back in the '60s technical analysis finally became popular, and I became worried that too many analysts were following the same technical items. I decided that I needed (1) an instrument that was proprietary, one that nobody else followed, and (2) one that would faithfully track the basic, underlying trend of the market.

After four years of experimenting, I developed my PTI. This is a composite of eight averages and indices, each one absolutely fundamental to the market (each is based on market action rather than some subjective item such as the short interest or market sentiment).

I reasoned as follows: if any one of these indices continued steadily and persistently higher, it would ultimately take the market up with it. But in the real world that never happens. However, if a majority of these eight indices continued in a rising trend, there was no way that the market would not follow. By the same taken, if a majority of these indices continued in a declining trend, it was certain that the market would decline as well.

I first included the PTI in these Letters in 1971, and the PTI has appeared in every Letter since. Note on the page 2 chart that the PTI, having broken below its 89-day moving average, is beginning to establish a definite declining trend. Then the 89-day MA turned down (which is another negative).

On May 3, despite the rallying action of the Dow, the PTI broke to a new low. The trend of the PTI now appears to be decisively DOWN.

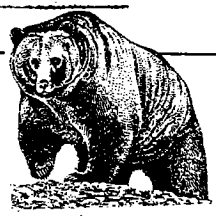
PUBLIC OPTIMISM: The April 29 *NY Times* notes that far from being frightened by declining prices, the mutual fund public continues to buy and in March there was a net inflow of $6.7 billion to the equity funds. The *NY Times* quoted Christian Thwaites, VP of Aetna mutual funds as saying, "The shakeout in the market hasn't really dented investor confidence," adding that if he was out of touch with business, "I wouldn't have known there was any sort of correction." Russell comment: I hardly take this as good news. It simply means that the public is convinced that the stock market is still the place to put money. And they're sitting tight -- exactly what the bear wants.

What selloff? Mutual fund investors pump in the money.

A LOT of mutual fund investors were frightened by the stock market turbulence in March and April. But even more thought it provided a buying opportunity.

"It's a positive sign that the first-quarter selloff has not hurt investor confidence about wanting to be in mutual funds," said Bruce Speca, a spokesman for the New England group of funds, who reported that new accounts invested 50 percent more money in April than in the comparable month last year.

INVESTMENT POSITION: The bear (ursa minor) is in the box. Before too long, you should expect to see a change -- the change will be that you will see ursa major in the box.



Quite a few subscribers are asking whether I plan to list stocks for short sales. My answer is probably not. The reason is that selling short is a tricky business, and from experience I've learned that most of my subscribers tend to lose money shorting -- even in a bear market.

When you buy a stock during a bull market, time is on your side. Furthermore, you collect the dividends, so timing is not that crucial when buying stocks during a bull market.

When you sell short in a bear market timing is critical and time works against you. As a short seller you must pay OUT dividends. Furthermore, when you're short you are always a trader, never an investor. Remember this -- the ideal time to short a stock is just before a market smash; there is no advantage in holding a stock for months during a bear market. Another point to consider is that counter-trend rallies in a bear market can be explosive, frightening and costly for short sellers. Rallies in a bear market can come suddenly and be violent.

Perhaps the hardest thing about shorting is that it goes against most people's psychology. When short you'll stay awake nights hoping for bad news, you'll comb the papers searching for a disaster scenario. It's a nerve-wracking process that only a few people can handle. Shorting is hard, believe me, very hard, and as I've said, the average person tends to lose money on the short side of the market.

Buying puts? Puts tend to be expensive in a bear market, and again you're fighting time. I'll say this -- a lot more money has been made by pros selling puts that by the public buying them -- even during a bear market. Ironic, but true.

Here's another point to consider -- in a bear market as stocks decline cash becomes progressively more valuable. Thus, holding cash in a bear market is, in a way, tantamount to being short stocks. You don't have to be a genius to survive in a bear market -- avoiding losses by holding cash is being smart enough.

Recommended position -- cash (T-bills, money market funds). For gold see Gold section.

NOTES & QUOTES: Following are excerpts from Richard Nixon's tenth book, due out next month: "Today, China's economic power makes the US lectures about human rights imprudent. Within a decade, it will make them irrelevant. Within two decades, it will make them laughable. By then the Chinese may threaten to withhold MFN (Most Favored Nation status) from the US unless we . . . improve living conditions in Detroit, Harlem and south-central Los Angeles." On health -- "The Clinton's health plan . . . is less a prescription for better health care than a blueprint for the takeover by the federal government of one-seventh of the nation's economy . . . it would represent the ultimate revenge of the 1960s generation."

* *

Speaking of health: The American diet may be delicious, but it's a bit of a killer, mainly because it's so high in fat. Studies of Chinese living in rural areas where the diet is high in fiber, grains and vegetables, shows that the rural Chinese rate of colon cancer is half that of Americans; their rate of heart disease is one-seventeenth that of American men. The Chinese rate of breast cancer is one-fifth of that of American women. But where urban and wealthier Chinese have adopted more "Western" eating practices their rates of heart disease and cancer approaches that of Western countries (from Marion Merrill Dow's *Cardisense* publication).

* *

Martial arts maven Steven Seagal's first three films have netted over $200 million, and he (along with Tom Cruise and Arnold Schwarzenegger) is one of the three biggest box office draws in the world. This spring Seagal will move his family to Montana. Asked why, he stated, "I want my kids growing up around nice people where it's safe. So we're going to a country town where you've got a bunch of ranchers and farmers, where everybody knows everybody else, and when people tell you something, they mean it. It's an honest place that still holds the values I learned as a boy." Russell comment: Sad but true, this is what's happening in the new America following decades of the welfare society and liberalism (as noted from the *USA Today* article below):

Report: Economic, social gulf is devastating a generation

By Margaret L. Usdansky
USA TODAY

Four million American children — 84% of them black or Hispanic — are growing up in deeply troubled neighborhoods where poverty, unemployment and dropping out of school are a way of life, says a new study.

The annual *Kids Count* report is the second study in two weeks that outlines the crisis facing many of the USA's 63.8 million children. It tracks grim trends — such as that one in five children lives in poverty — and warns that devastating economic and social disparities are continuing to grow.

100,000 in 1985 to 71.1 in 1991.

▶ The number of juveniles arrested for a violent crime rose from 305 per 100,000 to 457.

▶ The percentage of youngsters who graduate from high school on time fell from 71.6% to 68.8%.

▶ The poverty rate for children dropped slightly, falling from 20.8% to 20%.

The study found declines in infant mortality and death rates for children under 15, but "it shows a continued deterioration of the well-being of American children," says Bill O'Hare of the Casey Foundation.

Another recent report by the Carnegie Corp. found that millions of infants and toddlers suffer from poverty

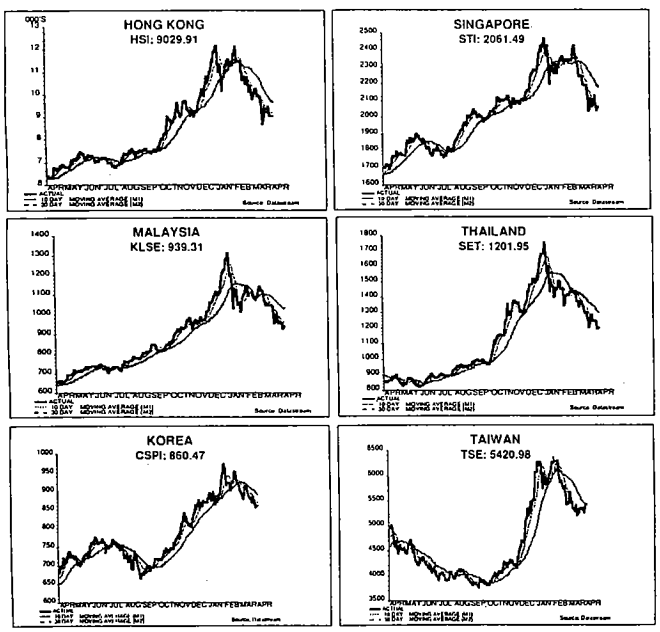
* *

The arguments about the Singapore vs. American justice system go on and on. Fact: in 1993 LA had 1,063 reported murders and 38,167 reported robberies. Singapore (roughly equal to LA in population) had 58 murders and 1,008 robberies. The US has spent decades mulling over the root causes of crime. Meanwhile, the US crime rate has sky-rocketed. Singapore doesn't give a damn about root causes, and they don't care too much about individual rights. What they do care about is quality of life. In Singapore there is no protection against self-incrimination, the police can order a drug test on the spot, and if it's positive you go into rehab for up to three years. Result: Crime is almost unknown in Singapore. Singapore has no litter, no graffiti, no gangs, and according to an *LA Times* reporter, *"Women confidently stroll the streets late at night, the subway is clean, and muggings are rare. Gang warfare, a significant scourge of the 1950s, has been stamped out."* Russell comment: You take your choice on how you want to live. The US is now moving toward harsher treatment for criminals, but the problems here are huge, and then there's the ACLU.

* *

Marc Faber out of Hong Kong sends me his brilliant *Gloom, Boom and Doom Report* and I send him my Letter. Marc writes, "If I have learned one thing about markets (and sometimes the lesson has been painful), it is that price movements, both up and down, far exceed one's expectations. Bull markets tend to last longer and rise further than one originally thought possible, while bear markets frequently lead to a total destruction of wealth."

Marc suspects that many stock market tops are now in place, and he includes this very significant series of charts on many of the



Asian markets (Marc Faber Ltd., 2705 New World Tower, 16-18 Queen's Rd. Central, Hong Kong).

* *

Having spent my young and formative years (20 and 21) bombing and strafing the Nazis via a B-25, I have a personal interest in the US Memorial Holocaust Museum in Washington. As a bombardier with the 12th Air Force, we were told that Jewish bombardiers, if shot down and captured by the Germans, would be executed on the spot. For that reason, I always carried a Colt 45 in my outside holster and two 32 cal. Berettas, one tucked into each boot. I figured that this was one Jew who might be in need of extra fire power. Happily, I was never shot down.

A year ago on the eve of the opening of the Holocaust Museum, staffers were worried that nobody would visit. They felt the exhibits were too horrifying, too depressing, and, in fact, too Jewish. But surprise -- during the last year two million people have visited the museum. Said Miles Lerman, chairman of the museum, "Never in my wildest dreams did I guess the success would be so enormous, so broad-based." Of the two million visitors to the museum, 62% were non-Jewish. Some 3,000 school groups have visited, and a total of 100 to 150 requests a week are arriving asking for Holocaust material. Recently, the museum asked the public to hold off visiting for a while -- the staff couldn't handle the traffic.

The absolute ultimate in blind, sick hatred is exemplified by those who deny that the Holocaust even existed, this in the face of filmed evidence and the testimony of thousands of witnesses and victims (my own brother-in-law was one of the infantrymen who broke into the Belsen-Bergan camp). Last week Germany's highest court ruled that those who spouted the "Auschwitz Lie," the denial of the Holocaust, would not be allowed to state their "inaccurate views" in public.

Wait, outrageous lying must be contageous. Last week Japan's Justice Minister Shigeto Negano announced that the bloody "rape of Nanking" never happened, it is just a "fabrication." What's next -- the earth is flat -- the Pope is Jewish?!

* *

The birth and death rates in Eastern Germany are puzzling and astounding scientists. In 1992 the birth rate in E. Germany was 55% lower than it was it 1989, and it's still declining. Said one expert, "Eastern Germany's adults appear to have come as close to temporary suspension of child-bearing as any large population in human experience." As for death rates, these are equally amazing. For women ages 25 to 45, the death rate is up 20% between '89 and '91, for men in the same age group the death rate is up by nearly 30%. Another amazing figure -- the marriage rate in E. Germany in '92 was 62% below the '89 level. Go figure, scientists can't. It is all, they say, outside the realm of human experience.

* *

Back in the '60s I bought 10 shares of Berkshire Hathaway (I paid $250 a share for them), and I bought them mainly to read Warren Buffett's famous comments in his annual report. (I sold the shares at 500 for a fat doubling. Was I a genius! Those 10 shares would now be worth $150,000.) This from Buffett's most recent report: he notes that Berkshire's board members have most of their own investments with the company with four directors having 50% of their net worth in the company. Buffett noted that derivatives are seldom understood by investors and tend to involve heavy leverage. "When you combine ignorance and borrowed money, the consequences can get interesting," noted Buffett. He recently attended Mrs. Rose Blumkin's 100th birthday (Berkshire bought her huge furniture company many years ago, and it's one of his favorite investments). Said Buffett, "I was delighted to attend Mrs. B's birthday party. After all she's promised to attend my 100th." In order to do that, Mrs. B would have to be around in the year 2030, but who knows, this tough old lady might make it.

* *

The global Internet system is the wave of the present and certainly the future. Used by 20 million people worldwide, it also has a near-sacred ethics restriction on advertising. When a husband-and-wife law firm (Canter & Siegel) sent an ad over Internet *("Do you want to get a green card for permanent residence in the US? THE*

TIME TO START IS NOW,") they received over 35,000 answers within days. This flagrant violation of ad ethics infuriated Internet users, and one angry person sent 8 million characters of gibberish to the law firm. This massive "mail bomb" was intended to gum up Canter & Siegel's computers for weeks.

* *

If you buy Russian securities the dangers are (1) high inflation, (2) political instability, (3) lack of faith in the authorities. Nevertheless, Russian capitalists keep coming up with new ideas to obtain money. Now in play are Russian promissory notes partially backed by gold held in Rothschild's London vaults. The notes will be listed on the Moscow central stock exchange and will be sold during the next month. The notes will mature in one year and will offer 300% interest, designed to beat high Russian inflation and ruble depreciation. Rothschild's is expected to use gold options to protect itself against fluctuations in the metal. Said Vyanacheslav Pankin of the Moscow central stock exchange, "The only thing that surprises me is that nobody thought of it before." Russell comment: Somebody did think of it before -- I did. I've been saying all along that the Russians should back the ruble with gold. They didn't and the ruble became almost worthless. Now at least they're backing notes with gold, which will make them salable.

* *

Washington has been making a huge to-do about banning assault weapons. Fabulous idea. That should really reduce crime. I've got a better idea -- let's ban howitzers, Browning Automatic Rifles and Bangaloor torpedoes. That should make a major splash in the papers and set the pols in really good with the public. One of these days, Washington will start dealing with the roots of crime. The roots are social and economic.

* *

It's nice to know that there are still a lot of native Americans who have survived the civilization efforts of we later arrivals. The statistics show that in the US we have 308,132 Cherokees, 219,198 Navajos, 103,826 Chippewas, 103,255 Sioux, 101,051 Apaches, 49,038 Iroquois, 20,631 Chickasaws, 13,797 Seminoles, 11,322 Cheyennes, and 11,301 Comanches. At latest count, all tribes are at peace with Washington and moving heavily into the gaming industry -- which is smart on both counts.

* *

Clinton's non-foreign non-policy is starting to make the headlines. In a scathing editorial in the *WSJ* (May 4) entitled "Clinton Speaks Loudly and Carries a Twig," Dow Jones Vice-President House writes, "Mr. Clinton, smiling and jiving through his first 18 months as commander in chief . . . seems oblivious to the chaos he is sowing and to the consequences he could reap even before 1996 . . . When Mr. Clinton says the US-China relationship is essential to a stable world order, but is ready to sacrifice it to the fate of Tibetan dissidents; when he says Serbian aggression in Bosnia is unacceptable, but accepts it; when he says Aristide must be restored to the presidency of Haiti, but allows a clique of Haitian Colonels to prevent it; when he says N. Korea won't be permitted to build nuclear bombs, but mutely watches his defense secretary confirm that Pyongyang has one -- when rhetoric is so discordant with realities -- our president is misleading the world's aggressors and confusing the American people." Russell comment: As I've been saying, this is a one-term president.

* *

Do As I Say?: Al Gore, our VP who supposedly is in charge of cutting the bureaucracy, has 40 aides on his payroll (six more than predecessor Dan Quayle had). Gore also has an executive staff of 21. Gore's "reinventing government" plan, which called for cutting 252,000 federal jobs, evidently has little or nothing to do with his own bloated office.

* *

Immortal Words From Hollywood: "Working with Barbra Streisand is pretty stressful. It's like sitting down to a picnic in the middle of a freeway." -- Kris Kristofferson . . ."There's a lot of money to be made on Wall Street. If you want real power, go to Washington. If you want sex, go into the fashion business. But if you want the whole poison cocktail in one glass, stirred with a swizzle stick of 'Hey, we're doing something creative,' go to Hollywood." -- Alec Baldwin . . . "George C. Scott -- fine actor, big drinker, wife-beater. What else would you like to know?" -- Colleen Dewhurst.

* *

Don't worry about the Golden State, we're doing just fine. And as far as our sky-high state taxes go, hey, every dollar is being well-spent, as noted below.

> SACRAMENTO — The California Department of Motor Vehicles has informed a flabbergasted legislative committee that it has spent $44.3 million on a computer modernization program that will never work.
>
> "This is unconscionable to me!" Assemblywoman Valerie Brown, D-Santa Rosa, sputtered. "I can't even explain this to people!"
>
> DMV Director Frank Zolin muttered: "I'm having a difficult time explaining this myself."
>
> Angry lawmakers demanded a raft of documents from the DMV and said they are likely to order an audit and investigation of the contracts, most of which are with Tandem Computers Inc. of Cupertino and the accounting firm Ernst and Young.
>
> "The department's position is that the software maker isn't responsible, the hardware maker isn't responsible and the taxpayers are just going to have to eat the cost,"

* *

Speaking of taxes, House Ways and Means Committee Dan Rostenkowski announced that Clinton's health plan will need to be financed by a broad-based tax increase that will hit virtually everyone. Danny says that he thought of a value-added tax, but the country isn't ready for that. So he would prefer something like a boost in the income tax. In the meantime, according to recent polls, public ardor for a national health plan is cooling rapidly.

* *

It's "killer popcorn" at the movie houses. Latest studies show that the so-called "buttered popcorn" served at the local film emporiums is super-loaded with fat, often equal to the fat in four hamburgers. So the word is, when you go to the movies bring your own unbuttered pop corn or maybe even nibble on a carrot. I'm reminded of the old epithet, if you want to stay healthy and lose weight, "Reach for a mate instead of a plate." Of course, if you haven't got someone to hold hands with or kiss, well, back to the carrot.

* *

One reason Euro-Disney has been a financial nightmare is the reason the Disney people don't want to talk about. It's that the French object to being Americanized. Which means a lot of French just won't go to Euro-Disney. Along these lines, French Culture Minister Jacques Toubon plans to ban the use of English in France, a threat that includes fines to deejays who play too much Anglo-Saxon music. But Pierre Berge, President of Yves Saint Laurent, calls the policy "naive and misguided, ridiculous, even ludicrous." He asks, could Mr. Toubon say the following in French, "After a little 'jogging,' let's meet up in the 'bar' and have a 'cocktail' before going to eat a 'hamburger.'" No word from Mr. Toubon.

* *

According to the Census Bureau, the world population is now 5.6 billion. In 1950 it was 2.6 billion, so it has more than doubled in the last 35 years. The world population will grow to 7.9 billion by 2020. However, the world population growth has slowed to roughly 1.5% a year, after peaking at 2% during the '60s.

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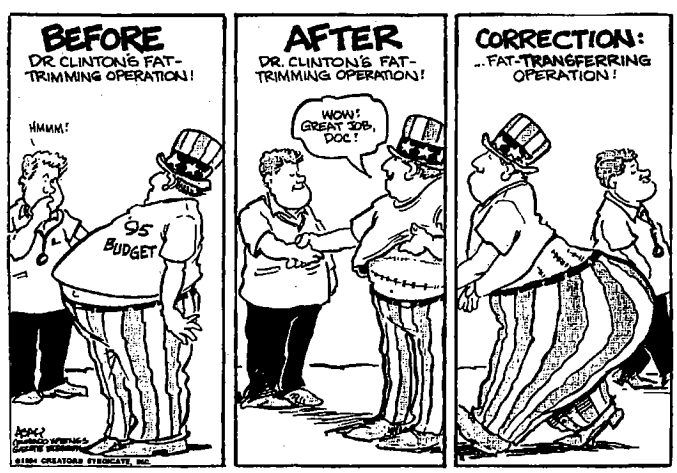
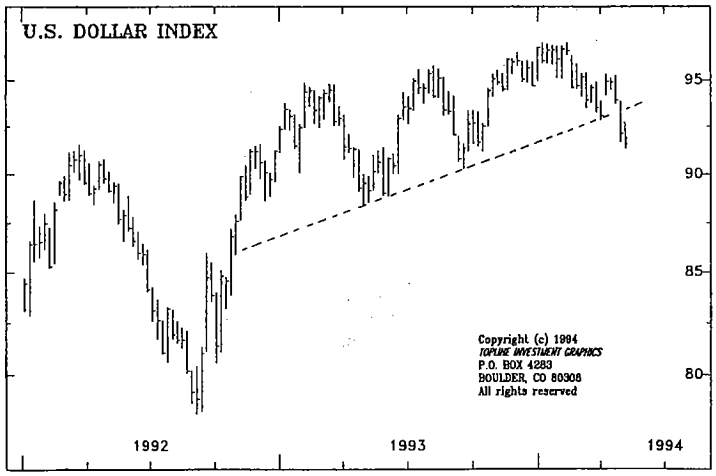
A cartoon that needs no explanation.





GOLD and the DOLLAR: Let's start this section with a chart by my old friend John "Mr. Computer" Carder. Here we see a critically important chart, and it points to something I learned years ago. A series of three tops, each only slightly above the preceding, is usually bearish (despite what you may think). Thus, we have the three rising tops on the Dollar Index, and then the dramatic break that you see on the chart.

The severe and chronic weakness in the dollar is beginning to "run" all the markets. Without going into all the lurid details, weakness in the dollar stems from continuing US debts and deficits, from the Clinton policy of bigger government with more and more entitlements, from the US low savings rate, and from Washington's policy of dollar-neglect.

The massive international intervention last week did frighteningly little for the dollar. By Friday (shock!) dollar weakness was apparent again. Currency traders wondered if this could be the beginning of an international panic out of dollars. If there's going to be a run on the dollar, the Fed will face a dilemma -- allow the dollar to go down the drain or raise rates significantly in order to defend the dollar. The choice would have to be rates. Higher rates, maybe a one percent pop in the Fed funds??!!!! The stock market, sensing the dilemma and the Fed's possible choice, protected itself by going DOWN.

Those who have "had it" with the dollar -- where have they been going up to now? So far, they have been moving into the hard currencies, the D-mark, the Swiss franc, the yen.

But aside from the Swissie (which is totally backed by gold), we must realize that the other currencies are backed by large dollar reserves. So ultimately, the key to all the world's currencies is the reserve currency -- the dollar. And you know what I think of the dollar's future.

GOLD -- I believe we've seen the low for gold and the gold shares. On April 20 my Gold-PTI hit a low of 905. On April 22 gold itself (nearest futures contract) hit a low of 370.60. The recent low for the XAU silver/gold average was 106. I'm betting that none of those lows will be violated.

Another place I'm watching is the "Low-Risk Index" for gold. On Friday (May 6) gold closed (nearest futures contract) at 384.50. On that close I received a low-risk buy signal. I take that as confirmation that the lows are in place for gold, and that the trend is now up, meaning that the secondary trend for gold has turned up again and that gold's primary bull market is once again in force.

I'm including my chart of gold and the Gold-PTI. As you can see the picture for both gold and the G-PTI is now rapidly changing.

The G-PTI is a new index from me, and I've been studying various ways of interpreting it. At this point I'd have to say that it acts as a directional indicator for gold, but even more obviously for the gold shares.

I've drawn two trendlines on the G-PTI. Trendline A was bettered in March, and that set off a rally that was quickly aborted. I would say that if and when the shallower trendline B is bettered, we will see the resumption of the gold bull market.

When I said in the last Letter that I had cut back on my gold share holdings, I did not mean to upset subscribers who are holding gold stocks. I had purchased my gold shares at much lower prices, and I felt I, personally, was too heavily committed considering the gold action (besides, I was taking profits, not losses). I did not mean that I was turning bearish on gold (and in fact I did not disturb gold positions held in accounts of other members of my family). NO, I am not bearish on gold.

For long-term investors in gold and gold stocks, the advice is hold. Gold will be as strong as the dollar is weak, and I expect a very weak dollar. Remember, gold is the stable (the real) money, the paper dollar (having no intrinsic value) is the unstable "unit of exchange." What changes is not gold, it is the number of dollars that it takes to buy an ounce of gold.

LATE NOTES: The item that nobody cares to talk about is that -- *this is a primary bear market, and the market is now in the process of discounting conditions as they will exist six months or even a year from now.*

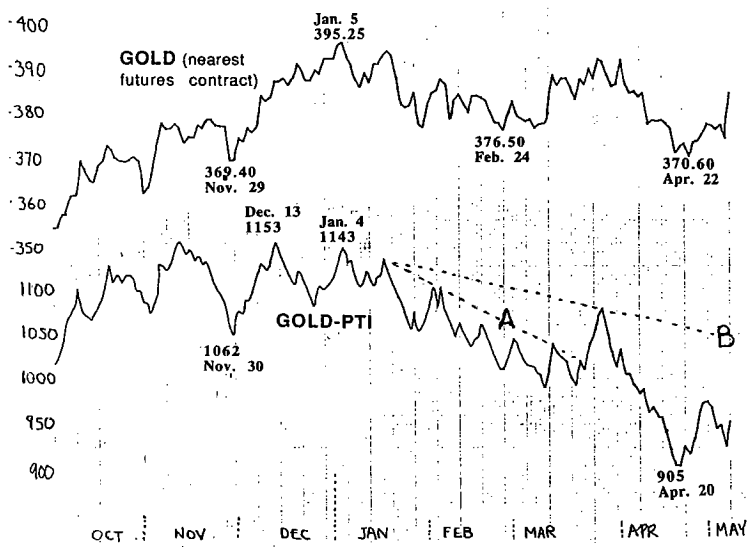
Each bull and bear market tends to develop its own peculiar characteristics. So far, I'd say that one characteristic of this bear market is that the Utility Average has been the bellwether. Remember, the Utilities topped out last September, and they have been going down ever since (thus leading the general market by about six months).

Last week, on May 5, the D-J Utility Average broke not only to a new bear market low -- but to its lowest level in three years. The Utilities have now lost over 26% of their peak (bull market) price. The total value of all the utility stocks runs into the hundreds of billions of dollars, and these huge losses are taking a giant chunk out of America's assets. As the bear market progresses, a negative "wealth effect" will be taking place -- meaning that Americans (who experience large losses) will be feeling poorer. But that's the way the bear works -- he's out to destroy values.

My **PTI** is beginning to assume an ominous look. We haven't seen anything like this profile (page 2 chart) in a long time. With the PTI now down 100 points from its February 2 bull market peak, any Dow rally is almost sure to lack PTI confirmation (and A-D confirmation as well). Note that the PTI declined even on those days when the Dow rallied. This is poor action, indicating that the Dow has simply been masking the underlying technical weakness of the rest of the market.

FED: The Fed has painted itself into a painful corner. Three years of driving interest rates lower has also been responsible for triggering a monster speculative bubble in both stocks and bonds. Now, with the dollar weak, the Fed is in the position of having to defend the dollar via higher rates. But if rates rise, the stock/bond bubble will burst (the bursting, in fact, is already in progress). And the poor befuddled administration -- they don't know whether they want a stronger or weaker dollar. As for the bear, he'll gladly take higher rates or a weaker dollar -- or preferably both.

Note: Clinton's legal bills (Whitewater and the new Paula Jones sex harassment suit) are already up to between $250 and $500 thousand. But the Jones suit promises to be even messier than Whitewater. According to Alan Dershowitz, "The President will almost certainly have to testify under oath -- first by deposition and then in court -- unless the suit is withdrawn or dismissed." As I said -- messy!!



NEXT MAILING: May 25, 1994